

CHAPTER 16

HOUSING REHABILITATION

I. **INTRODUCTION.**

Housing rehabilitation is the most frequently funded activity in the State CDBG program. This chapter includes some additional information and sample documents necessary for you to implement a successful program.

II. **GRANTEE RESPONSIBILITIES.**

You are responsible for meeting all the terms of your contract including complying with applicable environmental and labor standards requirements, relocation laws, and preparing rent and program guidelines (see Chapter 2 for contract requirements). In addition, to implement a successful program, you must document your rehabilitation projects, and know the policies and procedures for special issues such as the reconstruction of dwelling units.

The topics covered in this section include:

- A. Program guidelines
- B. Project documentation
 - 1. Work write-ups and specifications
 - 2. Homeowner/contractor contracts
 - 3. See Lead-based paint chapter for Lead-based paint requirements
- C. Calculation of household income
- D. Lump-sum drawdowns
- E. Persons on title
- F. Mobilehome rehabilitation and reconstruction
- G. Reconstruction

A. **Program guidelines.**

Within 90 days of your contract effective date you must submit a copy of your proposed program guidelines to the Department for review and approval. The guidelines should be a comprehensive and clearly written statement of your loan underwriting policies and procedures for owner-occupied and renter-occupied dwellings, including a discussion of the following topics:

- Determining applicant and resident eligibility;
- Rehabilitation standard(s) to be used;
- Maximum loan amounts available to owner-occupants and owner-investors;
- Loan terms, loan-to-value ratios, debt-to-income ratios, allowed adjustments to applicants' income, and repayment plans;
- Remedying loan defaults and delinquencies up to and including foreclosure;
- Change of occupancy from owner-investor to owner-occupant or vice versa, sale or transfer of property or change of use of the property;
- Grantee's role in contracting
- Resolution of grievances between homeowners and contractors, both during and after completion of construction;
- Owner-builder (self-help) rehabilitation;
- Lead-based paint notification, explanation, mitigation, and clearing procedures for pre-1978 housing;
- Owner-occupant temporary relocation assistance;
- Affordable rent provisions for owner-investor properties; and
- Listing of ineligible property improvements.
- General property improvements should be limited to 15% of the rehabilitation loan amount.

B. Project documentation.

You need to document the condition of the property and the work you propose to do before you rehabilitate it. You also should have a good boilerplate contract for homeowners to use in contracting for the work. You must document compliance with lead-based paint requirements.

1. Work write-ups and specifications. No rehabilitation work should be done without initial inspection forms, work write-ups and specifications and, where necessary, drawings to further define the scope of the work. Work write-ups and specifications must be as precise as possible so that everyone concerned, including the homeowner, will know what is to be included in the job, and you can obtain an accurate cost estimate for the work to be done. Since most work write-ups are incorporated into the construction contract,

they should also be detailed enough for use in the preparation of change orders.

2. Homeowner/contractor contracts. For consistency and ease of your monitoring of program requirements, we recommend you encourage use of a standard contract for all homeowner/contractor contracts.
3. Lead-Based Paint. Reference Chapter 20, Lead-Based Paint Requirements for specifics in evaluating, mitigating, notifying, and clearing LBP hazards in CDBG rehabilitations.

C. Calculation of household income.

When determining whether a loan applicant (homeowner) or a tenant is income qualified for the CDBG program, the grantee must verify the income of all persons in the household. A household is defined as all persons who occupy the housing unit as a place of residence. Therefore, persons who reside in the unit, whether or not they are related, must have their income verified and the household income cannot exceed CDBG income limits (see Appendix D).

For consistency in calculating household incomes, we recommend you use the most current income limits available when determining household income. The CDBG income limits are updated annually.

D. Lump-sum drawdowns.

Federal regulations, 24 CFR 570.513, allow grantees to obtain funds for a Housing Rehabilitation activity by means of a lump-sum drawdown payment option. See “Supporting Materials” at the end of this chapter for a copy of these regulations.

What it is:

- A lump-sum deposit of CDBG funds into a local financial institution
- A rehabilitation fund for targeted income households

Why it is useful:

- Assures ready cash flow to make loans and pay contractors
- Reduces cash request paperwork
- Prompt payment flexibility improves program credibility with area contractors
- Encourages participation by local financial institutions in community improvement efforts (Example: Grantees who are speaking to banks and credit unions about doing this agreement should point out that the bank can claim its participation in the rehab program on its

Community Reinvestment Act (CRA) annual report which is sent to the feds each year and kept on record)

How it works:

- The grantee must execute a Lump-sum Drawdown Agreement with a participating financial institution. The term of the agreement cannot exceed two years. See “Supporting Materials” at the end of this chapter for a sample agreement.
- The participating financial institution has to make one or more concessions, as required by the Federal Regulations (see below). In addition, the funds must be deposited into an interest-bearing account.
- CDBG staff must review and approve the Agreement prior to its execution by the grantee and financial institution.
- Any loan repayments made on loans originated with the lump-sum funds can remain in the lump-sum account as Program Income during the term of the agreement and can be re-used only for additional loans. Repayments made after the state contract terminates are considered regular Program Income for the jurisdiction and are subject to the jurisdiction’s Program Income Re-Use Plan.

Limitations

- Neither the grantee’s nor the lender’s administrative costs can be funded through the lump-sum drawdown.
- The amount of the drawdown may not exceed what is reasonably expected to be needed during the term of the agreement.
- The lump-sum drawdown must be taken all at once to equal the amount stipulated in the Lump-sum Drawdown Agreement.
- If a grantee wants multiple payments, it may do so, but it will have to execute separate Lump-sum Drawdown Agreements for each specific dollar amount. These multiple agreements need not be with the same financial institution.
- If the financial institution makes a commitment of bank funds as its benefit contribution, these bank funds must be used to assist only households who are participating in the local jurisdiction’s CDBG-funded housing rehabilitation program.

What is required from the financial institution (per Federal Regulations):

- Interest-bearing account; and

- At least one of the three following benefits:
 - Additional bank funds in excess of the lump sum drawdown deposit;
 - Private funds at below-market interest rates, at higher than normal risk, or longer than normal repayment periods;
 - Administrative services in support of the rehabilitation program at no cost or at a lower cost than normally charged (Example: Bank may provide free accounting and disbursement services (free checking)).

What the lump-sum drawdown agreement has to include:

- Obligations and responsibilities of the grantee and financial institution
- Terms and conditions for deposit and use of CDBG funds
- Statement of financial institution's benefit contribution (if interest rate concession, provide information on rate structure)
- Interest rate to be paid on the lump-sum deposit (no more than three points below the rate on 1-year Treasury obligations at constant maturity; see the Federal Regulations 570.513 (b)(9)(i), (A-C) for detail on allowable interest rates)
- Reference to Federal regulations
- Stipulation of 45-day time period for commitment of first loan
- Stipulation re: 25% expenditure of funds within 180 days
- Other terms as needed to assure compliance with Federal regulations

Program Requirements:

- Cash requests

A lump-sum of funds may be requested only for the loan pool portion of the CDBG housing rehabilitation grant. The general administration and activity delivery costs must be requested by means of either the advance or reimbursement cash request option (see Chapter 9, Cash Requests, for more information).

- Reporting requirements

Grantees who select the lump-sum option must prepare and submit periodic Lump-sum Drawdown Reports and must report on the financial institution's

progress in meeting its benefit commitment on the semi-annual Program Activity Report (see Chapter 10, Reporting, for more information). Department staff will review these reports to assure that the grantee is complying with the federal regulations.

- Performance requirements
 - the first loan has to be approved within 45 days of deposit
 - 25% (percent) of funds must be disbursed within 180 days of deposit; the percentage amount depends on the term of the agreement:

Substantial Disbursement

Term of Agreement	% of Funds to be Disbursed
1 Year	35 percent
18 Months	75 percent
2 Years	100 percent

- Failure to meet the federal rules regarding financial institution benefit requirements and loan disbursement rates may result in termination of the Lump-sum Drawdown agreement. In the event the Department terminates the agreement, the grantee will have to return any unused lump-sum funds and convert its cash request option to either advance or reimbursement for the balance of the state contract term.

Technical Assistance

Grantees who are considering using the lump-sum drawdown should contact their CDBG Representative for consultation prior to entering into any agreement with a financial institution.

E. Persons on title.

CDBG program policy will allow non-TIG persons who do not reside on the property on title providing the following criteria are met:

1. Adequate mechanisms are developed and in place to ensure that the loan is due and payable, or converted to a market rate loan or rented under a recorded rent limitation agreement when the income eligible owner is no longer occupying the unit.
2. A mechanism is developed to monitor the unit at least biennially to identify any change in occupancy and/or use.

3. Guidelines describing the policy and the mechanisms are included in the program guidelines.

F. Mobilehome rehabilitation.

CDBG funds may be used for the rehabilitation of a mobile home. An alternative to actual rehabilitation of a mobile home is to replace the unit with a used mobile home. To be considered eligible for rehabilitation costs, the used mobile home must have been occupied and not used as a demonstration model.

Should the residential dwelling or existing mobile home that is being considered for rehabilitation meet the criteria for reconstruction discussed in G., below, a new mobile home can be used for replacement. All costs associated with the purchase and transportation can be added to the applicant's loan.

G. Reconstruction.

Changes in federal law and policies allow the use of CDBG funds to demolish and reconstruct TIG-owned and occupied residential structures. Reconstruction is defined as the demolition and construction of a structure. States may establish guidelines for authorizing reconstruction, provided the guidelines are consistent with federal standards.

Grantees must document that the reconstruction costs are less than newly constructed housing and that the estimated cost of the reconstructed housing (excluding demolition, site preparation and temporary relocation) is less than the fair market value of the reconstructed housing and land combined. ***This may be accomplished by completing the Test for Reconstruction, which is in Section VI of this chapter and providing an appraisal or equal on the fair market value of the newly reconstructed housing.*** A copy of the Test for Reconstruction must be kept in the project files and be available for review during the monitoring visit. **Grantees are no longer required to submit a request for reconstruction to the department for approval.**

The residential structure to be reconstructed must be a structure or unit within a structure with cooking, eating, sleeping, and sanitation facilities which has been legally occupied as a residence within the preceding 12 months.

Reconstruction of rental properties is allowed. Relocation benefits must be planned for and budgeted in cases requiring temporary relocation of tenants.

Reconstruction of a unit is categorically excluded from the National Environmental Policy Act (NEPA, see Chapter 3) if the project is four or fewer units per NEPA 58.35(a) (7). ***New this year is the RER form and the Appendix A form that can be used for reconstructions.***

Building plans for reconstruction should meet new construction building and zoning standards for room size, setbacks, and off-street parking areas.

TEST FOR RECONSTRUCTION

Jurisdiction _____

CDBG Rep _____

Contract # _____

Date _____

Property Address _____

**** If any of the No boxes are checked, you can not do a reconstruction.**

Yes No

☐ ☐ Does the structure meet the definition of a dwelling? A dwelling must have cooking, eating, sleeping, sanitation facilities and have been legally occupied as a residence.

☐ ☐ Has legal occupancy and residential use been established during the preceding 12 months or was the dwelling ordered vacated by a local official within the last six (6) months?

☐ ☐ Is the cost to reconstruct the dwelling less than the cost of rehabilitating it?

Cost to Rehabilitate the Dwelling = \$ _____

Cost to Reconstruct the Dwelling = \$ _____

☐ ☐ *Is the estimated cost to reconstruct (including demolition, site preparation and temporary relocation) less than the fair market value of the reconstructed dwelling?*

Estimated Fair Market Value of Dwelling Including Land

= \$ _____

Cost to Reconstruct the Dwelling Including Land,

Demolition, Site Preparation and Temporary Relocation = \$ _____

☐ ☐ Is the cost to reconstruct the dwelling less than the cost of a comparable newly constructed dwelling?

Cost to Reconstruct the Dwelling Including Land = \$ _____

Cost of Newly Constructed Dwelling Including Land = \$ _____

Signature of Local Official

Date

Signature(s) of Owner(s)

Date(s)

III. COMMON PROBLEMS.

- Incomplete loan/grant files
- Eligibility of applicants/recipients has not been adequately verified
- Rehabilitation work done outside the target area without the prior written approval of the Department
- No procedures in place for monitoring sweat equity projects including time frames for work, hazard insurance, and standards for workmanship and materials
- Failure to follow Davis-Bacon labor standards and procedures for rehabilitation projects that invoke prevailing wages
- The Appendix A of the MRER is not completed for each minor rehabilitation project. The Statutory Worksheet is not completed for each major rehabilitation and reconstruction project.

IV. DEPARTMENT'S ROLE.

CDBG staff will conduct at least one monitoring of the grantee's rehabilitation program during the life of the grant. In addition to the monitoring, staff will be available to assist in solving any program problems as they occur.

Staff will also monitor the quarterly Financial & Accomplishment Reports and the annual Grantee Performance Reports to ensure that grantees are satisfying their contractual obligations.

V. REFERENCES.

- 24 CFR 570.202 - Eligible rehabilitation and preservation activities
- 24 CFR 570.513 - Lump-sum drawdown for financing property rehabilitation activities

VI. SUPPORTING MATERIALS.

1. Lump-sum Drawdown Agreement (sample)	16-11
2. Program Guidelines Checklist.....	16-14
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a. Annual Household Income Definition.....	16-23
b. Income Limits.....	see Appendix Section
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4. CDBG Housing condition Survey (sample)	16-25
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SAMPLE

LUMP-SUM DRAWDOWN AGREEMENT

Note: This sample has been written up using the benefit contribution of a commitment of financial institution funds. Grantees and financial institutions have the option of two other benefit contributions, as described earlier in this chapter and in the copy of Federal Regulations included in these Supporting Materials.

LUMP SUM DRAWDOWN AGREEMENT BETWEEN

THE _____ AND _____
NAME OF JURISDICTION NAME OF FINANCIAL INSTITUTION

THIS AGREEMENT made and entered into this _____ day of _____, 20____, by and between the _____ (City or County) _____ a political subdivision of the State of California hereafter referred to as City/County _____, whose address is _____ and _____ (Financial Institution) _____, hereafter referred to as "BANK", whose address is _____.

WHEREAS City/County _____, intends to carry out housing rehabilitation throughout the unincorporated areas of City/County _____, and,

WHEREAS City/County _____ seeks financial participation with BANK in making property improvement loans available to eligible property owners in these areas; and,

WHEREAS City/County _____ will make low-interest loans to property owners from the Community Development Block Grant Program funds to make such financing affordable to low-income borrowers; and,

WHEREAS City/County _____ wants to process loans expeditiously and to ensure prompt payments to property owners and contractors;

THEREFORE, be it resolved that City/County _____ and BANK agree to enter into an agreement under the following terms and conditions:

TERMS AND CONDITIONS:

1. City/County _____ will make a drawdown of \$_____ from State of California, Department of Housing and Community Development, Housing and Community Development's (HCD) Community Development Block Grant (CDBG) program, agreement ____-STBG-_____, for deposit into a Rehabilitation Fund in BANK, under the provisions of Housing and Urban Development (HUD) Regulation for "Lump-sum drawdown for financing of property rehabilitation activities in Section 570.513, 24CFR Part 570 (Exhibit A, attached).
2. BANK agrees to pay interest on the Rehabilitation Fund credited monthly at the current market rate for accounts of this type.

3. Interest earned on the Rehabilitation Fund will go into the Fund to make additional loans to eligible property owners.
4. BANK agrees to commit a minimum of \$_____ for Home Improvement Loans, to eligible and qualified applicants under the CDBG program. \$_____ will be from BANK funds and will be reported as match for the CDBG grant. Loans must be made by _____, 20____.
5. City/County _____ agrees to take responsibility for the administration and implementation of City/County _____ housing rehabilitation program in the manner described in its Program Guidelines (Exhibit B, attached).
- 6
 - a) The Housing Rehabilitation Staff of City/County _____ will process applications, prepare work write-ups, conduct housing inspections during construction, and certify the completion of rehabilitation for each property.
 - b) The Housing Rehabilitation Staff of City/County _____ will coordinate with BANK for withdrawals of funds, process payments to title company and general contractors, et al. in a timely manner to maintain program continuity.
7. BANK agrees to process loan applications in an expeditious manner.
8. BANK retains final responsibility to approve or disapprove each loan application to be made with bank funds. BANK will be lien holder on loans funded through its Home Improvement Loan Fund.
9. City/County _____ retains final responsibility to approve or disapprove each loan application made with Rehabilitation Funds. City/County _____ will be lien holder on loans funded through its Rehabilitation Funds.
10. City/County _____ and BANK agree that BANK shall be first lien holder and City/County _____ shall be second lien holder on loans funded with both Home Improvement Loan Funds and Rehabilitation Funds.
11. BANK agrees to administer the Rehabilitation Fund at no cost to City/County _____.
12. City/County _____ and BANK agree to start using the rehabilitation funds within 45 days of deposit.
13. City/County _____ and BANK agree to expend 25% of the rehabilitation funds within 180 days of deposit.
14. BANK agrees to submit to City/County _____ on a monthly basis a detailed account activity of the Rehabilitation Fund (i.e. account statement); as well as a detailed quarterly account activity of the Bank Home Improvement Loan Fund.

15. **COUNTY/CITY and BANK agree to the following:**

- A. City/County _____ shall have the right to terminate this Agreement by giving written notice to BANK of such termination and specifying the effective date thereof if through any cause, BANK shall fail to fulfill in a timely and proper manner its obligations under this Agreement, including compliance with the approved program and attachments, or BANK violates any of the covenants, agreements or stipulations of this Agreement, or submission by it to City/County _____ of reports that are incorrect or incomplete in any material respect, or ineffective or improper use of funds provided under this Agreement.
- B. If BANK is unable or unwilling to comply with such additional conditions as may be imposed by State or Federal government on the grant or agreement which City/County _____ is performing, the program to which these services are being rendered, BANK shall have the right to terminate this Agreement by giving written notice to City/County _____, signifying the effective date thereof.
- C. In the event of termination, all unobligated CDBG funds in the Rehabilitation fund not encumbered or disbursed will be returned to City/County _____. These funds must be used only for approved activities under the CDBG grant referenced in paragraph 1.
- D. In the event BANK in any way merges, closes, or has change in ownership, BANK shall return to City/County _____, all unencumbered and/or unobligated funds in the Rehabilitation Fund.

15. This agreement commences on the date of execution and concludes on _____, 20____, the expiration date of State of California Grant Agreement No. ____-STBG-_____. If approved by HCD, this agreement may be extended for an additional period of time. Amendments shall be in writing and signed by both parties.

WHEREFORE, the parties have executed this agreement the date first above written.

NAME OF JURISDICTION _____ **NAME OF BANK** _____

BY _____
NAME & TITLE

By _____

NAME OF JURISDICTION

TYPE or PRINT NAME and TITLE

APPROVED AS TO FORM:

Name of City/County Attorney
Name of Jurisdiction

REHABILITATION PROGRAM GUIDELINES CHECKLIST

Jurisdiction: _____

Grant No.: _____

	YES	NO	Page No.	Comments
Do they reference a temporary relocation plan?				
• Separate document?				
Did they clearly state their rehab standards?				
Are General Property Improvements allowed?				
* What % of the rehabilitation loan amount is allowed for General Property Improvements?				
Do they have a procedure to comply with lead-based paint requirements?				
What is the maximum loan amount for owner-occupant and owner-investors?				
Is there an adequate discussion of loan underwriting policies for owner-occupied and renter-occupied dwellings?				
• Terms?				
• Rates?				
• Does loan to value determine approval for a loan or loan amount?				
1. If yes, is there adequate discussion?				
• Does debt to income determine approval for a loan or loan amount?				
1. If yes, is there adequate discussion?				
Are grants proposed?				
* If yes,				
• Under what conditions?				
• Are they limited in \$ amount?				
• Is there a cap on the total \$ amount for the grant?				
Are rentals included?				
• Is a Rent Limitation Agreement required?				
• Is the Rent Limitation Agreement monitored?				
Changes in occupancy:				
* Is there an adequate discussion of:				
• Owner-investor to owner-occupant?				
• Owner-occupant to owner-investor?				
• Sale or transfer of property?				
Is there an adequate discussion of default and loan servicing policies and procedures? Separate Document?				
Is there a grievance procedure?				
• Between homeowner and contractor?				
• Between homeowner and grantee				
Do they have a contracting procedure?				
Are there procedures to document sweat equity?				
• Lead-based paint compliance?				
Do they use proper income eligibility determination?				

Date Approved: _____

Rep. Signature: _____

SAMPLE HOUSING REHABILITATION PROGRAM GUIDELINES

I. APPLICANT ELIGIBILITY

Temporary Relocation

Tenants will be informed of their eligibility for temporary relocation benefits if occupancy during rehabilitation constitutes a danger to health and safety of tenant or public danger or is otherwise undesirable because of the nature of the project. Relocated tenants will receive increased housing costs, payment for moving and related expenses and appropriate advisory services, as detailed in the City of [XXX]'s "Residential Antidisplacement and Relocation Assistance Plan", *Please see sample "Residential Antidisplacement and Relocation Plan" in Chapter 4.*

Owner occupants are not eligible for temporary relocation benefits, unless health and safety threats are determined to exist by the project coordinator/construction supervisor.

Conflict of Interest

No member of the governing body of the locality and no other official, employee, or agent of the city government who exercises policy, decision-making functions, or responsibilities in connection with the planning and implementation of the program shall directly or indirectly be eligible for this program, unless the application for assistance has been reviewed and approved according to applicable California Department of Housing and Community Development (HCD) guidelines. This ineligibility shall continue for one year after an individual's relationship with the city ends.

A contractor with a vested interest in the property cannot bid on a rehabilitation job. Such a contractor may act as owner/builder, subject to standard construction procedures. (Owner/builders are reimbursed for materials purchased which are verified by invoice/receipt and used on the job. Reimbursement occurs after the installation is verified by the Construction Supervisor to be part of the scope of work. Owner/builders are not reimbursed for labor.) The City/County reserves the right to determine if the owner is capable of owner/builder rehabilitation work.

Income

Owner Occupant - To be eligible, household income must be equal to, or less than, the applicable HCD income guidelines. Owner will be required to provide income documentation. (See attached Annual Household Income Definition/Income Limits).

Owner Investor - There are no restrictions on the income of the owner investor unless the owner investor is a member of the Targeted Income Group (TIG) and is interested in qualifying for a Deferred Payment Loan.

Tenant - If a rental is currently occupied, the tenant's household income must be equal to, or less than, the applicable HCD income guidelines. Tenant will be asked to cooperate by providing income documentation. (See attached Annual Household Income Definition/Income Limits).

Occupancy

No unit to be rehabilitated will be eligible if it is currently occupied by an HCD ineligible household. Rental households occupying such units will be allowed to remain in the units. To prevent owners from evicting ineligible tenants before applying for the program, the owner must certify that no tenant has been forced to move without cause during the previous six months.

Fair Housing

This program will be implemented in ways consistent with the city's commitment to Fair Housing. No person shall be excluded from participation in, denied the benefit of, or be subjected to discrimination under any program or activity funded in whole or in part with Community Development Block Grant (CDBG) funds on the basis of his or her religion or religious affiliation, age, race, color, ancestry, national origin, sex, marital status, familial status (children), physical or mental disability, sexual orientation, or other arbitrary cause.

II. PROPERTY ELIGIBILITY

Location

Units to be rehabilitated must be located within current city limits.

Rehabilitation Standards

All repair work will meet Uniform Building Code standards. The priority will be the elimination of health and safety hazards.

Property Improvements

All improvements must be physically attached to the property and permanent in nature. General property improvements should be limited to 15% of the rehabilitation loan amount. Luxury items are not permitted.

Lead-Based Paint

Program participants rehabilitating homes constructed prior to January 1, 1978 must be provided with the proper disclosure notification concerning lead-based paint (LBP) hazards. Whenever pre-1978 houses are rehabilitated under CDBG, please refer to Chapter 20, Lead-Based Paint Requirements for guidance. The costs associated with meeting these requirements are eligible to be paid for with CDBG funds, and should be considered during program design.

III. FINANCING

Owner Occupant

Limits - An eligible owner may qualify for the full cost of the rehabilitation work needed to comply with Uniform Building Code standards. Maximum assistance with CDBG funds is \$_____. Total indebtedness against property will not exceed 100 percent of after rehabilitation value. Rehabilitation

costs for CDBG funded jobs may be supplemented with personal financing or with other loan or grant programs, which are sources of leverage for the city.

Types of Financing and Terms

Deferred Payment Loans (DPL) - Non-interest bearing loan, secured by a deed of trust, with no payback required until the participant sells or transfers title or discontinues residence in the dwelling, unless sold or transferred to a targeted income group household (see IV.A.2).

Payments may be made voluntarily on a DPL.

Grants are limited, with a maximum \$_____ per household. Total CDBG program funds distributed as grants shall not exceed \$_____.

Determining Eligibility

1. Every targeted income group owner occupants who are determined to be eligible for the CDBG program may receive DPL financing.
2. A limited number of \$7,500 grants are available as follows:
 - Senior Citizen - at least 62 years old.
 - Handicapped - only for handicap modifications to a house with one or more physically handicapped occupants who would function more independently if such modifications were installed.
 - Lowest Targeted Income Group - with gross annual income less than 50 percent of county median income.

Owner Investor

Limits-An owner investor may qualify for the full cost of the rehabilitation work needed to comply with Uniform Building Code standards. Maximum assistance from CDBG funds is to be determined by the local jurisdiction. Two underwriting variables to consider are the loan-to-value ratio (does the property constitute sufficient value compared to the size of the loan the borrower is requesting to adequately secure the debt) and the debt-to-income ratio (the ability of the borrower to repay the debt). Total indebtedness against property will not exceed 100 percent of after rehabilitation value. Rehabilitation costs for CDBG funded jobs may be supplemented with personal financing or with other sources of leverage.

Maximum loan-to-value

The maximum encumbrance will normally be limited to (____%) of the property's after-rehabilitated value.

When the ratio is at or above (____%) the city/county may require an appraisal.

Debt-to-Income Ratio

Applicants whose debt to income ratio exceeds (____%) may be considered ineligible to

participate in the program.

Types and Terms of Financing

Amortized loan - Below Market Interest Rate (BMIR) loan at ___ percent interest, secured by a deed of trust and with a maximum term of ___ years.

Combined financing - ___% percent of rehabilitation costs as a BMIR loan and ___% percent as a DPL. A DPL is a non-interest bearing loan secured by a deed of trust with no payback required until the owner investor sells or otherwise transfers title to the rehabilitated property, unless sold or transferred to a targeted income group household. Payments may be made voluntarily on a DPL.

DPL for a TIG owner investor who agrees to comply with standard investor restrictions (i.e., Maintenance Agreement for minimum five years and recorded Rent Limitation Agreement for life of the loan), as outlined below. Same terms as described in previous paragraph above.

Restrictions

Rent Limitation Agreement (RLA)

An owner investor who elects to rehabilitate a rental unit with CDBG financing must sign an RLA, which will be recorded. This agreement will specify:

In no instance shall rents exceed the U.S. Department of Housing and Urban Development (HUD) Fair Market Rent (FMR) schedule while the RLA is in effect.

Base Rent -- Vacant Unit

If the house is vacant, rent charges shall not exceed 30 percent of 80 percent city median income for the appropriate household size in that unit. Owner investor shall affirmatively seek TIG households by contacting the local housing authority. Where such contact does not result in eligible TIG tenants, the owner investor shall contact the city for guidance.

Base Rent -- Occupied Unit

If the house is occupied, rent charges shall not exceed 30 percent of the existing tenants' household income; or, where, before rehabilitation, rents already exceed 30 percent of the existing tenants' income, no rent increases shall be allowed which provide for rents plus utilities over 30 percent of the tenants' income.

Terms

If financing is the combined BMIR/DPL, adherence to these rent limitations will be for five years from the date of Notice of Completion of construction.

If financing is a DPL), adherence to these rent limitations will be for the term of the loan.

Compliance -- Failure to comply with these terms and conditions will result in the loan becoming due and payable. If necessary, foreclosure proceedings will be instituted.

Lead-based Paint

Program participants, including tenants, rehabilitating homes constructed prior to January 1, 1978 must be provided with the proper disclosure notification concerning lead-based paint (LBP) hazards. Whenever pre-1978 houses are rehabilitated under CDBG, please refer to Chapter 20, Lead-Based Paint Requirements for guidance. The costs associated with meeting these requirements are eligible to be paid for with CDBG funds, and should be considered during program design

Maintenance Agreement

As specified in the Rehabilitation Loan Agreement, an owner investor who participates in the program must maintain the property at post-rehabilitation conditions for a minimum of five years. Should the property not be maintained accordingly, the loan will become due and payable, and if necessary, foreclosure proceedings will be instituted.

IV. RESIDENCY REQUIREMENTS

Owner Occupant

Owner occupants will be required to submit to the city between January 1 and 15 of each year for the term of the loan:

- Proof of occupancy in the form of a copy of a current utility bill.
- Statement of unit's continued use as a residence.
- Declaration that other title holders do not reside on the premises.

In the event that an owner occupant sells, transfers title, or discontinues residence in the rehabilitated or purchased property for any reason, the loan is due and payable.

If the owner occupant sells or otherwise transfers title of the property to a targeted income group household, the city will consider subordinating the loan and continuing all or part of the lien as a DPL.

If the owner occupant dies, and if the heir to the property lives in the house and is income eligible, the heir may be permitted, upon approval of the City of [XXX], to assume the loan at the rate and terms the heir qualifies for under current participation guidelines.

If the owner occupant dies and the heir is not income eligible, the loan is due and payable.

If the owner occupant dies and the heir is not income eligible, but he or she chooses to rent the unit to TIG households and agrees to comply with owner investor restrictions, the heir may be permitted, upon approval of the City of [XXX], to assume the loan at the same rate and terms offered owner investors under current program guidelines. If the heir/owner investor does not comply with owner investor restrictions, the loan is due and payable.

If an owner occupant wants to convert the rehabilitated property to a rental unit, the owner must notify the city in advance. If the city approves the conversion of an owner occupied unit to a rental, the owner will be required to comply with the provisions of the owner investor guidelines, including rent limitation provisions and financing arrangements.

If an owner wants to convert the rehabilitated property to any commercial or non-residential use, the loan is due and payable.

Owner Investor

If an owner investor sells or transfers title of the rehabilitated property for any reason, the loan is due and payable.

An owner investor may convert a rental property to his or her personal residence if all conditions below exist:

- He or she can prove that the previous tenant was not evicted without cause.
- He or she is income eligible.
- He or she requests approval from the city.

If an owner investor converts a rental property, rehabilitated with CDBG funds, to his or her personal residence, but he or she is not income eligible, the loan is due and payable.

If an owner wants to convert the rehabilitated property to any commercial or non-residential use, the loan is due and payable.

V. DEFAULT AND FORECLOSURE

If an owner defaults on a loan, and foreclosure procedures are instituted, they shall be carried out according to the CDBG Foreclosure Policy adopted by the city, and **located in Chapter 19.**

VI. INSURANCE

Fire Insurance

The applicant shall maintain fire insurance on the property for the duration of the loan(s). This insurance must be an amount adequate to cover all encumbrances on the property. The insurer must identify the city as Loss Payee for the amount of the loan(s). A binder shall be provided to the city.

In the event the applicant fails to make the fire insurance premium payments in a timely fashion, the City of [XXX] at its option, may make such payments for a period not to exceed 60 days. The city may, in its discretion and upon the showing of special circumstances, make such premium payments for a longer period of time. Should the City of [XXX] make any payments, it may, in its sole discretion, add such payments to the principal amount that the applicant is obligated to repay the city under this program.

Flood Insurance

In areas designated by HUD as flood prone, the owner is required to maintain flood insurance in an amount adequate to secure the Rehabilitation Loan. This policy must designate the city as Loss Payee. The premium may be paid by the Rehabilitation Loan for one year.

VII. LOAN OR GRANT APPROVAL

All loans and grants must be approved by the CDBG Loan Review Committee. In order to obtain CDBG financing, applicants must meet all property and eligibility guidelines in effect at the time of loan approval. Applicants will be provided written notification of approval or denial. Reason for denial will be provided to the applicant in writing.

VIII. REPAIR CALLBACKS

In the event that a contractor must be called back to make corrections on rehabilitation work items that are not covered by the one year warranty, the City has the option to cover the costs through the current CDBG construction budget.

IX. PROGRAM COMPLAINT AND APPEAL PROCEDURE

Complaints concerning the CDBG Program should be made to the Project Manager first. If unresolved in this manner, the complaint or appeal shall be made in writing and filed with the city. The city will then schedule a meeting with the CDBG Loan Review Committee. Their written response will be made within fifteen (15) working days. If the applicant is not satisfied with the committee's decision, a request for an appeal may be filed with the city council. Final appeal may be filed in writing with HCD within one year after denial or the filing of the Project Notice of Completion.

X. GRIEVANCES BETWEEN PARTICIPANTS AND CONSTRUCTION CONTRACTOR

Contracts signed by the contractor and the participant include the following clause, which provides a procedure for resolution of grievances:

Any controversy arising out of or relating to this Contract, or the breach thereof, shall be submitted to binding arbitration in accordance with the provisions of the California Arbitration Law, Code of Civil Procedure 1280 et seq., and the Rules of the American Arbitration Association. The arbitrator shall have the final authority to order work performed, to order the payment from one party to another, and to order who shall bear the costs of arbitration. Costs to initiate arbitration shall be paid by the party seeking arbitration. Notwithstanding, the party prevailing in any arbitration proceeding shall be entitled to recover from the other all attorney's fees and costs of arbitration.

XI. CONTRACTING PROCEDURES

- All housing rehabilitation work must be carried out using the CDBG adopted housing rehabilitation guidelines.
- The city/county will prepare, advertise the bid package and assist the homeowner in negotiating the contract.
- The homeowner will select the contractor.
- All contractors must be checked and cleared with HUD'S federal debarred list of contractors.

- All contractors must be actively licensed and bonded with the State of California.
- All contractors must have public liability insurance to the city/county required limits, Workmen's Compensation Insurance, unemployment and disability insurance.
- All contractors must comply with CDBG federal and state regulations.
- A Notice of Completion must be recorded with the County Recorder.

XII. SWEAT EQUITY

Participants who wish to perform sweat equity will sign a written commitment itemizing the work they will perform, a time schedule for completion and a dollar value of the contribution.

Owners that contribute sweat equity that involves painting will not participate in activities that include the abatement or mitigation of lead paint hazards without first being trained on Safe Work Practices as required by HUD and provide documentation of such in the project file.

XIII. AMENDMENTS

Amendments to these guidelines may be made by the city and submitted to HCD for approval.

XIV. EXCEPTIONS

Exceptions to these guidelines will require city council and HCD approval.

XIV. HUD INCOME LIMITS 200_ ADJUSTED FOR FAMILY SIZE FOR CITY/COUNTY

XIII. ATTACHMENTS

The following documents are attached and form a part of these guidelines:

Annual Household Income Definition/Income Limits

*Residential Antidisplacement and Relocation Assistance Plan

*CDBG Foreclosure Policy

*(*Note to Readers: The sample Residential Antidisplacement and Relocation Assistance Plan is in Chapter 4. The sample CDBG Foreclosure Policy is located in Chapter 19.)*

ANNUAL HOUSEHOLD INCOME DEFINITION

For the purposes of determining eligibility in accordance with HCD income guidelines, Annual Income will include, for all members of the household:

- 1) Gross wages and salary before deductions.
- 2) Net money income from self-employment.
- 3) Cash income received from such sources as rental units, Social Security benefits, pensions, and periodic income from insurance policy annuities.
- 4) Periodic cash benefits from public assistance and other compensation, including AFDC, SSI, Worker's Compensation, State Disability Insurance and Unemployment benefits.
- 5) Interest earned on savings and investments.

Annual Income will not include:

- 1) Non-cash income such as food stamps or vouchers received for the purpose of food or housing.
- 2) Capital gains or losses.
- 3) One time unearned income such as scholarship and fellowship grants; accident, health or casualty insurance proceeds; prizes or gifts; inheritances.
- 4) Payments designated specifically for medical or other costs, foster children or their non-disposable income.
- 5) Income from employment of children under the age of 18.
- 6) Payment for the care of foster children.

This is not meant to be a complete list. Grantee will make the final decision in situations where the classification of income is not clear cut. Any exceptions or other deviations from this definition of annual income will be considered by Grantee.

2005 CDBG INCOME LIMITS
Refer to Appendix Docs & Supporting Materials Section

RESIDENTIAL ANTIDISPLACEMENT AND RELOCATION ASSISTANCE PLAN
Refer to Chapter 6

CDBG FORECLOSURE POLICY
Refer to Chapter 19

CDBG HOUSING CONDITION SURVEY (Sample)

MAP # _____

Vacant (---Yes/---No)

For Sale (---Yes/---No)

ADDRESS _____

CITY _____

CONSTRUCTION TYPE

Wood Frame _____

Masonry _____

Mobile _____

Modular _____

Other _____

STRUCTURE TYPE

Single Family with Detached Garage _____

Single Family with Attached Garage _____

Duplex _____

Multi-Family _____ # of Units _____

Other _____

FRONTAGE IMPROVEMENTS IF APPLICABLE:

_____ CURBS
(---Yes/---No)

_____ GUTTERS
(---Yes/---No)

_____ ADEQUATE SITE DRAINAGE
(---Yes/---No)

_____ PAVED STREET
(---Yes/---No)

_____ SIDEWALKS
(---Yes/---No)

_____ Driveway
(---Yes/---No)

#1 - FOUNDATION:

- 0 Existing foundation in good condition.
10 Repairs needed
15 Needs a partial foundation
25 No foundation or needs a complete foundation.

#4 - WINDOWS:

- 0 No repair needed.
1 Broken window panes
5 In need of repair.
10 In need of replacement.

#2 - ROOFING:

- 0 Does not need repair
5 Shingles missing
5 Chimney needs repair
10 Needs re-roofing
25 Roof structure needs replacement and re-roofing.

#5 - ELECTRICAL:

- 0 No repair needed.
5 Minor repair.
10 Replace main panel.

#3 - SIDING/STUCCO:

- 0 Does not need repair.
1 Needs re-painting.
5 Needs to be patched and re-painted.
10 Needs replacement and painting.
10 Asbestos/Lead-Based.

Sound	9 or less
Minor	10 - 15
Moderate	16 - 39
Substantial	40 - 55
Dilapidated	56 and over

- 56 Dilapidated-a unit suffering from excessive neglect, where the building appears structurally unsound and maintenance is nonexistent, not fit for human habitation in its current condition, may be considered for demolition or at a minimum, major rehabilitation will be required.

	#1 Foundation	#2 Roofing	#3 Siding/ Stucco	#4 Windows	#5 Electrical	TOTAL
Points						

Comments:

Surveyor _____ Date _____

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DEFINITION OF HOUSING CONDITIONS

SOUND-a unit that appears new or well maintained and structurally intact. The foundation should appear structurally undamaged and there should be straight roof lines. Siding, windows, and doors should be in good repair with good exterior paint condition. Minor problems such as small areas of peeling paint and/or other maintenance items are allowable under this category.

MINOR- a unit that show signs of deferred maintenance, or which needs only one major component such as a roof.

MODERATE-a unit in need of replacement of one or more major components and other repairs, such as roof replacement, painting, and window repairs.

SUBSTANTIAL-a unit that requires replacement of several major systems and possibly other repairs (e.g. complete foundation work, roof structure replacement and re-roofing, as well as painting and window replacement.)

DILAPIDATED-a unit suffering from excessive neglect, where the building appears structurally unsound and maintenance is none-existent, not fit for human habitation in its current condition, may be considered for demolition or at minimum, major rehabilitation will be required.

ELECTRICAL INSPECTION PROCEDURE

1. Number of service entrance conductor sets (two wire -120 volts, three wire 120/240 volts, (four wire is three phase service and is not common in residences.)
2. Determine panel box conditions-missing knockouts, melted insulation, overheated fuses, missing connectors/bushings, rust, obstructed access, overloaded panel, no main service disconnect.
3. Inadequate /antiquated service-under 100 amps.

ROOF INSPECTION PROCEDURE

1. Observe roof from ground and look for any unusual conditions:
 - a. unevenness in roof line
 - b. signs of leaks in eaves, soffits, fascias, abnormal condensation.
 - c. dryrot in fascias, rafters or rafter tails
 - d. flashings and roof drainage systems in good shape
 - e. shingles missing or curled
 - f. number of layers of roofing
2. On flat roofs check bubbles, blisters, cracks, spongy areas, and ponding water conditions,

CDBG Standards for Room and Bathroom Additions

Unit Size	Maximum No. of Persons in the Household
SRO	1
0-BR	1
1-BR	2
2-BR	4
3-BR	6
4-BR	8
5-BR	10
6-BR	12

- Opposite sex children under 6 years of age may share a bedroom.
- Opposite sex children 6 years of age and older may have their own bedroom.
- Children shall be permitted a separate bedroom from their parents.
- Same sex children of any age may share a bedroom.
- 5 or more people - a second bathroom may be added.
- 10 or more people - a third bathroom may be added.
- Same rules apply to mobile home units.
- Contact your field representative should you have any questions.

The chart above is used as the department's guide to overcrowding.